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MAYOR JERRY SANDERS FACT SHEET

DEBUNKING THE BANKRUPTCY MYTH

By Jerry Sanders

For too long, progress in closing San Diego's structural budget deficit has been sidetracked by a disinformation campaign that contends, against all evidence, that the city would be better off if it filed for bankruptcy.

That's baloney.

These claims are simply a mirage that distracts us from serious debate over real solutions. But unfortunately for our city, the peddlers of this fiction cannot be ignored.

By repeating their claims, again and again, they've convinced some San Diegans that bankruptcy is a real option.

But the truth is talk of bankruptcy impedes progress on real substantive pension reform, and it poisons the climate for thoughtful solutions to our structural deficit.

In my view, the bankruptcy con job is nearly as irresponsible as the schemes that dug us into a financial hole in the first place.

Thankfully, this sham has been debunked by City Attorney Jan Goldsmith. His detailed legal analysis of municipal bankruptcy found that it would only waste the city's time and money, and – most import – it would offer no hope of a financial fix.

The city attorney exposed “the bankruptcy myth” in a speech to a taxpayer group this month. Here are some highlights:

- Based on Orange County's experience, bankruptcy would cost San Diego taxpayers between \$100 million and \$300 million in attorney fees.

- After that money has been spent, a judge could easily dismiss our case, particularly if he or she feels the city has not done enough to solve its financial problems by raising taxes.
- Bankruptcy cannot be used to void employee pension benefits once they are vested, which occurs the first day of employment. Our state Constitution protects those benefits.
- No city or county has ever voided pension obligations through bankruptcy. It didn't happen in Orange County. It's not happening in Vallejo. Instead, bankruptcy would allow renegotiation of the labor contracts that took effect last year and include the 6 percent employee compensation reductions. They are helping to solve our financial problems, not contributing to them.
- Any court ruling that voided vested pension benefits would almost certainly be appealed – costing the city more time and money – and then be overturned by the U.S. Supreme Court.
- Labor leaders and their lawyers know the threat of bankruptcy is empty. It gives us no leverage with them in negotiations.

In the end, bankruptcy would cost hundreds of millions of dollars and net nothing in return. And the most compelling claim made on its behalf – that it would allow us to shed our pension obligations – is patently false.

Fortunately, while the bankruptcy hucksters were spinning their nonsense, my administration was developing and enacting pension reforms that are honest and substantial.

Our first goal was dealing with the huge pension debts left by previous city councils, which underfunded the pension system rather than making the tough decision to tighten spending. This cowardice created a crisis that damaged our reputation with Wall Street and the Securities and Exchange Commission.

After taking office, I acted quickly to restore our credibility by enacting a plan to pay down this liability, interest and principal, on an aggressive timeline. Those payments hurt. But future generations will be grateful that we did not repeat bad behavior and push our problems onto them.

Our second goal, then and now, is reducing future liabilities. We began by creating a two-tier retirement system that reduces taxpayer costs for new hires. The same kind of model is now being looked at by Los Angeles, San Francisco and state government. Ours took effect in July. As new employees replace old ones, our savings will grow.

The courts won't let us reduce vested benefits for current employees. But our new system lowers our obligations to newly hired employees by reducing costs and risks, eliminating excessive perks, raising retirement ages and no longer pegging benefits to an employee's highest earnings.

We also reined in the DROP program, which encourages early retirements, so future participation is cost-free to the taxpayer. An independent analysis of DROP will be completed soon and alert us if further refinements are necessary.

Finally, we have scaled back our obligation for post-employment health care benefits by freezing the benefits escalator. We are working closely with our employees to identify appropriate funding sources and levels for this nonvested benefit, which will further reduce our unfunded liability.

We are now in the second phase of pension reform, seeking further enhancements of a four-year record of true cost savings. We are constantly pursuing responsible and legal reforms – undeterred by those who would delay progress by mythologizing bankruptcy.

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